KTRS NEWSLETTER

TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY

ACTIVE MEMBER EDITION
January/February 2006

WHAT'S INSIDE!

2006 General Assembly

Important Information About The Budget and Your KTRS Retirement and Medical Benefits

(An Executive Summary of this article is included on page 4 of this newsletter)

Like all Kentucky citizens, members of the Kentucky Teachers' Retirement System should be concerned about the financial status of the Commonwealth during the upcoming biennium. The Governor's recommended budget for the next two fiscal years certainly reflects that State Government will not have the income to meet all the demands placed upon it.

While we understand the seriousness of the financial problems facing the Governor and members of the 2006 General Assembly, we do not feel that they would choose to do anything to jeopardize either the financial soundness of the Teachers' Retirement System or the medical benefit for retired teachers. ***Unfortunately, in an effort to balance a very difficult General Fund Budget for the next two years, $42 million cited by the System's independent actuary as needed to properly fund the System was not allocated.*** In addition, because more than 20% of active KTRS members are eligible to retire, the System's actuary safely and conservatively estimated that $269 million would be needed for retiree medical benefits for the next biennium. The administration chose to consider historic rates of retirement and reduced the actuarially estimated amount needed for the cost of retiree medical benefits to $233 million. Of this reduced estimated amount, only $9 million of the $233 million was actually funded in the budget. The remaining balance of $225 million is provided for in the budget through borrowing from funds otherwise specifically designated by statute to be deposited into the KTRS Pension Plan. The Governor's Budget does contain funding of $14 million in the second year of the biennium to start amortizing $97 million of the $225 million in funds borrowed.

This practice of borrowing from the Pension Plan presents a very serious problem for long-term funding of both the retirement benefit and the medical benefit for retired teachers. The Governor stated in his Budget Address, "My budget proposal maintains the health insurance program for retirees, but necessarily relies on financing mechanisms that have been used in the past, but that are unsustainable in the long run. We must address this issue over time." The Governor's words are directly on point. This financing mechanism, used for the first time in the last biennium, does not provide for such unsustainable withdrawals from the Pension Plan for purposes beyond providing for retirement benefits.

KTRS was formed by statute in 1938 to provide retirement benefits for teachers that, as a group, were excluded from participating in the newly formed Social Security program started in this country

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in 1935. Fortunately for Kentucky educators, KTRS was designed by law to be an actuarially sound "retirement reserve" program to provide a reasonable level of retirement income to Kentucky's public school teachers. This means that throughout a teacher's career, the teacher would contribute to the plan and the state would match those contributions, and those combined funds would be invested to provide the promised benefit upon retirement. This System has worked well for over 65 years and the current issues must be properly addressed for the System to continue adequately serving the members.

To ensure the funding is sufficient to meet those obligations, state law provides that KTRS employ a competent actuary to annually evaluate the costs of benefits that have been earned by teachers and the levels of contribution that the System must receive in order to maintain reserve funds with which to pay those promised benefits. To this end, the System contracts with an independent, national actuarial firm with vast experience in public pension plans to annually review the funding for retirement and medical benefits. These reports are forwarded to the Governor and the General Assembly annually, where the decision is made regarding the amount of contribution that active members and the state must make to both maintain the operation of the System on an actuarially and financially sound basis and to provide retiree health care benefits.

The retirement benefit is pre-funded with monies set aside and invested to guarantee the benefit. However, by statute, the medical benefit for retired teachers is a pay-as-you-go benefit, meaning simply that the funds will be made available annually as the premiums are paid. The medical benefit was created in 1964 and is funded through a contribution from active teachers of 3/4ths of 1% (0.75%) of teacher salaries. This contribution is matched by the state. Though initially sufficient to cover the total cost of the medical benefit, the combined contributions are now sufficient to cover only a portion of the cost. As medical costs continue to rise much faster than teacher pay and the consumer price index, and with the ratio of active contributing members, as compared with retired members, decreasing as the System matures, this combined funding is supporting a diminishing percentage of the medical benefit.

To supplement the declining funding, statutes were amended in 1998 to permit part of the employer contribution to the Pension Plan (up to 3.25%) to be used to fund the medical benefit. The portion of the 3.25% employer contribution to the Pension Plan, available to apply to the medical benefit, is determined annually by the System's independent actuary. From 1998 through 2005 this percentage amount varied from a peak of 3.25% in fiscal 2001 and fiscal 2002 to the lowest level of 1.02% in fiscal 2005. During this seven year period, $336 million in employer contributions was re-directed to help provide retiree medical benefits. The largest amount in any one fiscal year was $76 million in 2002. Beginning in fiscal 2006, the actuary determined that all of this funding would be needed to apply to the unfunded obligations of the Pension Plan, and the KTRS Board of Trustees requested that the $336 million be returned to the Pension Plan with interest over the next ten years. The Governor's budget for this biennium did not address the Board's request that this funding be returned.

Benefits that continue to be substantially underfunded will become a progressively larger burden on state government and taxpayers. The requirement to meet an increasingly larger liability may well collide with other demands on the state's resources, and could result in a decline in retiree medical benefits. In order to provide a more stable source of funding for the medical benefit, the Board of Trustees sought a law change that would stabilize the funding necessary to continue this pay-as-you-go benefit. During the 2004 Regular Session of the General Assembly, KRS 161.550(2) was amended to direct the state to begin funding this benefit. This law passed both the House and Senate with no dissenting votes and was signed into law by the Governor, indicating the clear intent of both the Legislature and Governor to fund retiree health care. The issue now is for them to follow through with this intent and provide the needed funding without reducing assets necessary to fund future retirement benefits.

The cost of medical insurance provided through the Kentucky Employees Health Plan for public employees and public employee retirees under age 65 increased much more in 2005 and 2006 than could reasonably be expected in the spring of 2004 when the medical stabilization amendment was composed and ratified. Monthly insurance costs

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increased by 70% during the two year period of 2004 to 2006. The retiree cost increased from $286 per month in 2004 to $410 per month in 2005 (43% increase) and from $410 per month in 2005 to $489 per month in 2006 (19% increase). Consequently, the need for additional funding for medical insurance was accelerated two years sooner than originally anticipated. Additional funding was secured utilizing the existing statute that allowed up to 3.25% of employer retirement contributions to be re-directed to fund retiree medical benefits. This funding, unlike the funding from 1998-2004, was based upon the promise it would be repaid with interest over a ten year period. The total amount transferred to continue the benefit for the two-year period and to be repaid was $91 million. The Governor's budget for the biennium contains the amounts necessary for amortized payments ($13 million each year of the biennium). At the end of fiscal 2005, the medical benefit had a fund balance of $145 million. This amount is adequate to meet the Board of Trustees' goal of maintaining a fund balance sufficient to provide 6 months of medical benefits for retirees.

The June 30, 2005 Actuarial Valuation of the Teachers' Retirement System retirement benefit reflects that the System had an unfunded obligation of $4.5 billion. While this is a large amount, the actuary stated that the System is operating on an actuarially sound basis. The actuarial assumptions assume that contributions to the System are made by the employee and the employer from year-to-year in the future at the rates recommended on the basis of successive actuarial valuations. Under this assumption, the continued sufficiency of the Pension Plan to provide retirement benefits may be safely anticipated. Nearly all public retirement plans have unfunded liabilities that do not present immediate problems if the state has taken sufficient measures to discharge the obligation within a thirty year period. The actuary reports that the employer contribution ***needs to increase by $42 million*** over the upcoming biennium. ***By increasing the employer contribution rate .11% ($3 million) in the first year of the biennium and 1.32% ($39 million) in the second year of the biennium, the System would be able to amortize its unfunded obligation over the next thirty years.*** As reported earlier, the Governor's budget did not include this needed funding.

The value of the System's assets exceeds $14 billion and there is no present difficulty in meeting the current retirement payroll which exceeds $1 billion per year. The concern of the System is that adequate funding be provided to assure payments for future retirement and medical benefits for retired members and those active members that have already earned their right to receive benefits. The Board's Actuary has stated that the contribution to the System needs to be increased as indicated above. The Board of Trustees has complete confidence in recommendations of the independent actuary, and has urged members of the 2006 General Assembly to adequately fund both the retirement plan and the medical benefit.

For many years, KTRS has had numerous meetings with legislators, legislative committees, the Governor's Budget Office, and others in efforts to maintain medical benefits for retirees and to continue funding the Pension Plan in a sound manner. This activity will continue, not only during this legislative session, but afterwards, as the System seeks funding to continue operating its retirement benefit program in an actuarially sound manner and seeks funding that would meet the immediate and long-term needs of the medical benefit program.

Cost of Living Increases (COLAs)

The Teachers' Retirement System requested funding needed to provide a COLA that would keep pace with the projected cost of living reflected in the Consumer Price Index as established by the Congressional Budget Office. A base COLA of 1.5% is provided in the planned funding of the retirement system, so additional funding must be secured to provide the added amount needed to have the benefit keep pace with inflation. An added COLA of 2.1% in the first year and 1% in the second year was requested. The Governor's budget contained funding targeted to improve benefits, but not to the level sufficient to provide the requested COLAs.

Executive Summary of Funding Provided in Governor's Budget

By statute, retirees' pensions are paid from the Pension Plan, an actuarial reserve fund that is pre-funded during a teacher's career. The medical benefit for retired teachers is provided by statute on a pay-as-you go basis after a teacher retires, with the state responsible for providing additional funding to pay the benefit beyond the base funding of the benefit from employee and employer match. The Administration's budget is short of providing funding requested by the KTRS Board of Trustees for both the Pension Plan and for retiree medical benefits with one of the four priority areas being fully funded. Below is a schedule of funding requested in these four areas and the related funding provided in the Governor's budget.

	KTRS Board's Request		Governor's Budget	
	FY 07	**FY 08**	**FY 07**	**FY 08**
Funding for Amortization of Prior Benefits	$ 130,428,400	$ 132,158,400	$ 130,428,400	$ 132,158,400
Increase in Employer Funding of the Pension	$ 3,174,600	$ 39,243,600		
Funding for Medical Benefits	$ 114,862,800	$ 154,001,400	$ 8,793,000	$ 14,133,200
Funding for Retiree Medical Benefits Borrowed from KTRS Pension Plan			*$ 105,804,500*	*$ 127,394,000*
Funding for Retiree COLA	$ 22,454,600	$ 33,872,200	$ 4,312,800	$ 7,865,100

- **Funding for Amortization of Prior Benefits**

The funding for prior benefits, such as retiree COLAs, were included in the Governor's Budget as requested by KTRS.

- **Increase in Employer Funding of the Pension Plan**

Unfortunately, in an effort to balance a very difficult General Fund Budget for the next two years, $42 million cited by the System's independent actuary as needed to properly fund the System was not allocated. ***Proper funding of the pension benefit is extremely important to our members,*** and KTRS makes every effort to inform the General Assembly of the importance of properly funding the Pension Plan.

- **Funding for Retiree Medical Benefits**

Funding for retiree medical benefits is provided in the Governor's Budget by borrowing funding that would otherwise be specifically designated by statute to be deposited in the KTRS Pension Plan. Though the Governor's Budget provides a means of funding this benefit for the next two years, borrowing from the Pension Plan presents concerns for long-term funding of both the retirement benefit and the medical benefit for retired teachers, and could lead to future reductions in medical benefits for retired teachers beyond this biennium. KTRS is actively working with the General Assembly to address these concerns, however, in an effort to reach a bi-partisan solution that will maintain the actuarial soundness of the retirement benefit fund on a long-term basis while meeting the funding needs of the medical insurance program for the coming biennium.

- **Cost of Living Increases (COLAs)**

The Governor's budget contains some funding to increase retirement allowances, but is less than the amount needed to provide the COLAs as requested by the Board of Trustees for all retirees.

For many years KTRS has had numerous meetings with the Governor's Budget Office, legislators, legislative committees and others in efforts to maintain medical benefits for retirees and to continue funding the pension plan in a sound manner. This activity will continue, not only during this legislative session, but afterwards, as the System seeks funding to continue operating its retirement benefit program in an actuarially sound manner and seeks funding that would meet the immediate and long-term needs of the medical benefit program.

Other Legislative Matters

KTRS is asking the General Assembly in this session to increase the annual disability income limitation for disability annuitants who were first retired on disability prior to July 1, 2002, from $27,000 to $40,000. If approved by the Legislature, this amendment will allow affected retirees to cumulatively draw a disability allowance and earn outside income in a non-KTRS covered position (and not in any employment requiring similar qualifications or duties as a KTRS-covered position) in an amount at least equal to, but no more than $40,000.

As always, KTRS will continue to monitor new bills, opposing those that negatively affect the retirement system and supporting those that promote and protect it. KTRS will also use the Session as an opportunity to continue to educate members of the General Assembly of the value of the retirement system to Kentucky, of the necessity of maintaining its integrity by avoiding harmful legislation, and generally of the state of the retirement and medical insurance programs.

Important Health Insurance Information for Members of the Kentucky Teachers' Retirement System Who Are Also Members of Another Kentucky Retirement System

KRS 61.680, the reciprocity statute that governs KTRS and each of the retirement systems administered by the Kentucky Retirement Systems, permits members who have contributed to a Kentucky Retirement System and also contributed to KTRS to combine their service from each system for the purpose of determining retirement eligibility and amount of retirement benefits. Kentucky retirement systems routinely refers to these individuals as reciprocity members.

For the purpose of determining eligibility for medical insurance benefits, both KTRS and KRS rely on separate provisions of the Kentucky Revised Statutes. KTRS, as approved by the Board of Trustees, is empowered under KRS 161.675 to change levels of coverage and eligibility conditions to meet the changing needs of the annuitants and when necessary to contain the expenses of the insurance program within the funds available to finance the insurance program. Specifically, the KTRS Board determines the amount of insurance supplement payments that KTRS will provide to assist eligible annuitants in paying the cost of their health insurance, based on the funds available in the medical insurance fund. Further is it specified that annually the KTRS Board shall establish the percentage of the maximum monthly health insurance supplement payment that will be made, based on age and years of service credit of eligible recipients of a retirement allowance.

Twenty years of service credit earned completely in KTRS or in combination with retirement systems administered by KRS has been the standard by which KTRS has provided the full cost of the single premium medical insurance supplement since KTRS first began using service credit in the determination of level of supplement beginning with the 1997 plan year. In the June/July 2002 newsletter, KTRS advised the membership that based upon the recommendation of a major national benefits consulting firm and as adopted by the KTRS Board at the June 2002 meeting, the single premium medical insurance supplement for new members joining the system on or after July 1, 2002 would be set at 100% only for members with 27 or more years of service at retirement, rather than 20 years. Pro-rata supplements will continue to be provided for members retiring with less than 27 years of service.

In 2003 Kentucky Retirement Systems advised its membership that new members who first establish membership in KRS on or after July 1, 2003 would be eligible for a fixed dollar amount, initially set at $10 per year, for each year of active service. This amount may be indexed annually according to increases in the consumer price index. The fixed dollar amount could be applied toward the cost of the single premium medical insurance supplement, however, it would be necessary to have

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Important Information for Year 2006 Retirees

The following answers are provided to help with often-asked questions pertaining to retirement.

Q: If I am planning to retire this year, what should I do in preparation?
A: There are certain steps that you should be aware of to ensure a successful retirement. Application forms must be requested from the KTRS office in Frankfort. It is called a Form 23 - Application for Service Retirement and is available only from the KTRS office. You will be required to submit copies of your Social Security card and the official, certified birth certificate when you submit your retirement application. A copy of your official certified marriage license is required if married. Also, if you select a payment option that provides a lifetime benefit to a surviving beneficiary, you will need to provide a copy of the beneficiary's official, certified birth certificate.

Q: Does my employer need to complete any part of my retirement application?
A: YES. Sections VII and VIII need to be completed and signed by your employer in order to finalize your retirement application. Please allow sufficient time for your employer to complete these sections.

Q: What is the deadline to file for retirement?
A: June and July retirement applications must be received in the KTRS office no later than June 1, 2006.

Q: When will I receive my first check?
A: To be eligible for the June effective date, retiring members must complete their employment contract and resign from their position by May 31st. A one-month service credit reduction will occur for June retirements. June 1st retirees will receive their first annuity payment by direct deposit on June 28th. July 1st retirees will receive their first annuity payment by direct deposit on July 28th. Please be reminded that as a result of 1998 legislation, all retirement payments must be sent by Electronic Funds Transfer (EFT). Section II of the retirement application requires you to supply your financial institution information and attach your voided or cancelled check.

Q: If I am retiring this year, when will my medical insurance become effective through KTRS?
A: Your medical insurance will be effective through KTRS on the 1st day of the month FOLLOWING the month your retirement is effective.

Your Checklist Filing for Retirement

- ❑ **Your KTRS Service Retirement application.** (Form 23) *(must be completed and signed by you and your employer).*
- ❑ **A copy of your official certified birth certificate.**
- ❑ **A copy of your Social Security card.** *(issued by the SSA and bearing its seal and your signature).*
- ❑ **A copy of your official certified marriage license.** *(if married at the time of your retirement)*
- ❑ **A copy of your beneficiary's official certified birth certificate.** *(if Retirement Option III, IIIA, IV or IVA is selected).*
- ❑ **You should submit payment for any service credit purchase two months prior to your retirement.** *(If you are qualifying out-of-state service or purchasing non- standard service to retire, the retirement system will calculate the amount due and notify you in writing upon receipt of your completed application.)*

Get to Know Your Retirement System with a KTRS Orientation

Several schools, as well as entire districts, have requested that KTRS staff meet with educators in their system to provide an orientation on the Kentucky Teachers' Retirement System. Our office can provide a short fifteen-minute summary or a one-hour presentation based on your timing needs.

Topics that will be covered include highlights of the KTRS defined benefit plan, the advantages of saving early for retirement, the value of retaining one's sick leave days, and information members should know regarding their retirement account.

KTRS counselors frequently hear the following comment from career educators: "If I had only known that when I first started teaching."

Knowing this valuable information on the front end of one's career eliminates regrets when a member is nearing retirement.

Please ask your school or district office to contact Sandra Bush at KTRS at 800-618-1687, or e-mail sandra.bush@ky.gov for more information on a KTRS orientation presentation.

Kentucky Teachers' Retirement System
Mid-Career Planning Workshops

REGISTRATION
5:30pm - 5:40pm (*Local Time*)
SEMINARS
5:40pm - 8:30pm (*Local Time*)

Tuesday, March 14, 2006	Monday, April 10, 2006	Tuesday, April 11, 2006
Daviess County Board of Education Board Room 1622 Southeastern Parkway Owensboro, KY	Breckinridge Inn Hotel Louisville Room 2800 Breckinridge Lane Louisville, KY	Holiday Inn South Preakness Room 5532 Athens-Boonesboro Road Lexington, KY

Kentucky Teachers' Retirement System
Pre-Retirement Seminars

REGISTRATION
9:00 A.M. - 9:15 A.M.
(*Local Time*)

SEMINAR
9:15 A.M. - 1:00 P.M.
(*Local Time*)

You are invited to attend if you are minimum one year to five years maximum from retirement.

March 18, 2006	May 24, 2006 & June 14 2006
Pine Mountain SRP C.V. Convention Center 1050 State Park Road Pineville KY	KTRS 477 Versailles Rd. Next door to the main building on the ground floor Frankfort,KY

Please feel free to bring a snack to have during the seminar.

KTRS Seminar or Workshop Pre-Registration Form

Pre-registration for all seminars is **NECESSARY** and offered on a first come, first serve basis. Individual retirement estimates will **NOT** be available at these workshops/seminars. **Return this pre-registration form to KTRS or pre-register on-line at: www.ktrs.ky.gov**

This Pre-Registration is for: ☐ **Mid-Career Workshop** or ☐ **Pre-Retirement Seminar**

Name ________________________ Social Security Number ______-______-______

Address ____

City/State ________________________ ZIP Code ________________________

Name of Employer ____

Home Phone: (______) ________________________ Work Phone: (_____) ____________________

Date of Workshop attending: __________________ City of Workshop attending: ____________________

** Guests are welcome if seating is available. Priority is given to KTRS Members**

Please return completed registration form to: KTRS ◆ 479 Versailles Road ◆ Frankfort, KY 40601-3800

Important Health Insurance Information for Members of the Kentucky Teachers' Retirement System Who Are Also Members of Another Kentucky Retirement System **continued from page 5 ...**

at least ten years contributing service in all state-administered retirement systems in order to be eligible to participate in the retiree medical insurance program.

Because both KTRS and KRS have adopted different methods for funding a prospective retiree's future medical insurance benefit, KTRS wanted to take this opportunity to advise all reciprocity members well in advance of their retirement. It is extremely important that active members be adequately advised of their future medical insurance benefits well in advance of their final retirement date. Both KTRS and KRS have agreed to recognize the first membership date in either system when determining a future retiree's medical insurance benefit. The active and retired members of KTRS can be confident that KTRS will make sufficient notification of any subsequent changes in the medical insurance supplements.

2-27-06

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